No. 88-1773

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

RICOH COMPANY, LTD.,

Petitioner,

v.

DONALD L. SNELLMAN d/b/a NORFIN,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

MOTION OF INTERNATIONAL ELECTRONIC MANUFACTURERS AND CONSUMERS OF AMERICA, INC. FOR LEAVE TO FILE BRIEF AMICUS CURIAE AND BRIEF AMICUS CURIAE

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June 2, 1989

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International Electronics Manufactures and Consumers of America, Inc. ("IEMCA") has received the consent of Petitioner Ricoh Company, Ltd. to file a brief *amicus curiae* in the above-captioned case, but Respondent Donald L. Snellman has withheld such consent. Accordingly, pursuant to Rule 36.1 of the rules of the Court, IEMCA moves for leave to file the attached *amicus* brief.

IEMCA's interest in this case stems from the adverse effect the Federal Circuit's novel damages rule will have on the development of new products by its member companies. The Federal Circuit approved an award of damages for non-willful patent infringement based on projected, rather than actual, sales. IEMCA's member companies believe that this approach to damage awards magnifies the existing uncertainty in assessing infringement risks to the point that innovation and development of new products will be chilled.

As *amicus*, IEMCA would address the hindrance to innovation, product design, and competition that will inevitably result in high technology industries if the damage award standard approved by the Federal Circuit is allowed to stand. The process of product design in high technology industries is intertwined with judgments about possible violations of the intellectual property rights of others. These judgments involve assessments of both the potential risk of liability and the possible damage exposure. These assessments will be made unreasonably precarious if non-willful infringers can be subjected to damage awards not connected to the actual extent of infringing use. Accordingly, IEMCA would argue in support of the petition of Ricoh Company, Ltd. for a writ of *certiorari* to review the judgment and opinion of the United States Court of Appeals for the Federal Circuit.

For these reasons, IEMCA requests that the Court grant its motion and consider the attached brief.

Respectfully submitted,

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BRIEF AMICUS CURIAE OF INTERNATIONAL ELECTRONIC MANUFACTURERS AND CONSUMERS OF AMERICA, INC.

The International Electronic Manufacturers and Consumers of America, Inc., as *amicus curiae*, respectfully supports the petition of Ricoh Company, Ltd. for a writ of *certiorari* to review the judgment and opinion of the United States Court of Appeals for the Federal Circuit entered on November 25, 1988, in this case.

INTEREST OF AMICUS CURIAE

The International Electronic Manufacturers and Consumers of America, Inc. ("IEMCA") is an asso-

ciation of United States electronics companies, dealers, and retailers devoted to free trade in electronic products. Since its formation, it has actively pursued this interest in legislative and administrative forums where United States policy on trade is determined. Because of the policy implications of the decision of the Federal Circuit, IEMCA urges the Court to hear its views and grant *certiorari*.

IEMCA's member companies are major participants in high technology industries such as consumer electronics, office equipment, telecommunications, computers, and semi-conductor industries. Common to all of these industries are several basic attributes. Product design is unusually dynamic. IEMCA's members invest hundreds of millions of dollars each year in new product and new technology research. Product life-cycles are short, and the demand for innovation is high. Competition is intense, and the markets for, and purchasers of, the member companies' products expect ever-increasing functionality at ever-decreasing prices, achieved through technological innovation and progress. To survive in these industries improved products must be brought to market frequently and rapidly.

Because of the importance of research and innovation in high technology industries, many products and product components are patented. In the case of large, complex products such as telecommunications equipment, audio or video systems, or computers, a single product may be subject to literally hundreds of patents on various components or aspects. IEMCA's member companies hold many thousands of patents under the laws of the United States and other countries around the world. Their competitors in high

technology industries are similarly situated. The member companies are concerned with any legal rules that affect the design, refinement, manufacture and sale of products that are characterized by a rapid rate of innovation. They thus have a fundamental interest in the administration of the United States patent laws, both for the sake of protection of their own investment in research and innovation and for the sake of being able to compete effectively without fear of violating the intellectual property rights of competitors.

New product development and design decisions are affected not only by the scope of legal protection under patents, but also by the rules that govern claims for patent infringement damages. The threat of damage exposure for patent infringement has a significant effect on product development and design decisions. No properly advised company operating in a high technology industry can prudently undertake new product development plans without due regard for this threat.[1] For the reasons demonstrated below, if allowed to stand, the decision of the Federal Circuit in this case will enlarge that threat enormously and unreasonably. The effectuation of important policies underlying the federal patent laws, as well as laws designed to encourage free competition and prevent monopolies, will be impaired.

SUMMARY OF THE ARGUMENT

The Federal Circuit's approval of a novel damage award standard for non-willful infringement, based on

[1] In contrast to violations of trade secret or copyright rights where copying is required, a patent can be infringed and damages incurred by an infringer who has no knowledge of the patent infringed on but who inadvertently builds an infringing device.

projected sales that never occurred, magnifies unreasonably the existing uncertainty surrounding patent protection and will thereby have a chilling effect on innovation and competition. The process of product design in a high technology industry is intertwined with judgments about possible violations of the intellectual property rights of others. These judgments involve both the potential risk of liability and the possible damage exposure. The assessment of these two elements of infringement risk will be made unreasonably precarious, if non-willful infringers can be subjected to damage awards not connected to the actual extent of infringing use. The novel damage rule enunciated in the Federal Circuit exceeds the statutory language of the Patent Act, 35 U.S.C. § 284, which establishes that damages shall be adequate to compensate for infringement (i.e., the patentee's lost profits, if provable) and be not less than a reasonable royalty for use made of the invention. It also upsets the delicate balance between protecting invention and encouraging competition and product improvements. The Court should exercise its *certiorari* jurisdiction and accept this case in order to uphold these well-established statutorily-based damage calculation methods and reject the novel damage measure approved by the Federal Circuit.

ARGUMENT

(1) The Process of New Product Design Includes Assessment of the Potential Risks of Patent Infringement

The decision of the Federal Circuit, approving an award of damages for non-willful infringement based on projected sales that never occurred and thus ap-

proving a "reasonable royalty" of over 400% of the total revenues realized by Ricoh on sales of the infringing device, can have several unfortunate impacts on the administration of the United States patent laws. The impact with which IEMCA is most concerned is on the planning and decision-making process of companies like IEMCA's members who must give careful consideration to patent law compliance in designing new products and bringing them to market. The damage approach sanctioned by the Federal Circuit will magnify the existing uncertainty concerning patent protection, thereby discouraging product development, innovation and competition.

Typically, the design process begins with a broad design idea, often prompted by specific feedback from customers seeking improved product functionality. Implementation of the broad design idea usually entails a review of the existing technology to assess which method of implementation might be most effective and least costly. This review of existing technology includes not only an examination of technical literature but also a study of existing patents, which must disclose the patented invention so that it may be understood and practiced by "any person skilled in the art" and must also include "claims particularly pointing out and distinctly claiming the subject matter regarded as the invention." 35 U.S.C. § 112 (1982).

When the product design is developed, the enterprise developing the product must take prudent steps to assure, to a reasonable degree of certainty, that the new product design does not infringe existing patents. This process usually entails examination of any relevant United States patents by counsel expert in patent infringement issues and rendition of an opin-

ion by patent counsel that the design in question does or does not infringe upon the patents studied.[2] Patent counsel's written opinion assessing the infringement risks prior to product introduction is a critical part of the product introduction process. *See* Cox, *Keynote Address: Law and Technology*, 50 Alb. L. Rev. 495, 498 (1986); Seidel, *Counseling the Potential Patent Applicant*, 30 Prac. Law. 63 (1984) ("Counsel usually becomes involved in a patent matter at an early stage, such as when the inventor has just conceived his invention or made his first crude model. . . ."). While patent counsel's opinion focuses on interpreting the scope of patents that might be infringed, it can also have an effect on damage exposure. Reliance on well-founded, prior written opinions of counsel is permitted as a defense to a charge of willful infringement, thereby avoiding treble damage award claims. *Abbott Labs v. Baxter Travenol Labs*, 676 F. Supp. 831, 832 (N.D. Ill. 1987); *see also TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 902 (Fed. Cir.), *cert. denied*, 479 U.S. 852 (1986) ("bad faith" showing not necessary before awarding increased damages for willful infringement).

For companies involved in rapidly changing technologies, as most IEMCA members are, it may not even be possible to obtain an opinion of patent counsel on the scope of competitors' patent protection until product development and marketing are well along. While new products may announce "Patent Pending," the secrecy rules of the U.S. Patent and Trademark Office for pending applications, together with the administrative delay inherent in the patent process (typ-

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[2] In some companies, opinions of this nature are rendered by in-house patent specialists.

ically 18 months between filing and issuance of a patent), means that there may be no publicly available information on patent coverage for the latest products, no matter how diligently counsel searches.[3]

The process of product design in a high technology industry is inextricably intertwined with judgments about patent infringement risks, including potential damages. Products will only be developed and marketed after a careful assessment of the potential risks. If the potential damage liability standard is vague and puts at stake revenues or assets unrelated to the new product, a prudent business person may reasonably choose not to market a newly developed product, and the inventive process will be stifled.

(2) The Federal Circuit's Decision Magnifies the Existing Uncertainty in Assessing Infringement Risks

Although a fundamental part of the design process, patent counsel's opinions concerning patent infringement rest upon inherently inexact judgments. If a claim of infringement is brought, the validity of any relevant existing patents, as well as whether a new product design would infringe them, ultimately are matters of what judges and juries will decide. As such, these opinions are commonly rendered not merely by registered patent counsel but by patent litigators who, through trial experience, have gained an appreciation of the subjective process of deciding, and awarding damages for, infringement complaints.[4]

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[3] *See Software Industry In Uproar Over Recent Rush of Patents*, N.Y. Times, May 12, 1989, at A1, col. 5. ("You won't really know you're infringing until it's too late," *id.* at D-5, col. 1).

[4] As noted earlier, in individual cases opinions may be rendered by other types of specialists. *See supra* note 2.

In theory the patent laws require precise claiming of the patented invention and encourage use of patent notice so that the public will know exactly which inventions are protected intellectual property and which are not. 35 U.S.C. §§ 112, 287 (1982). "The federal patent scheme provides a basis for the public to ascertain the status of the intellectual property embodied in any article in general circulation . . . . The public may rely upon the lack of notice in exploiting shapes and designs accessible to all." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 109 S. Ct. 971, 983 (1989) (citation omitted). In practice, however, the simplicity envisioned by the patent laws does not exist in the modern legal environment. An entire professional specialty—the patent bar—has developed to deal with the extraordinary complexity and uncertainty concerning patent validity and scope of protection. *See* O'Brien, *Establishing a Company Policy and Program for Intellectual Property Rights*, 50 Alb. L. Rev. 539, 540 (1986) ("Many companies maintain a staff of patent attorneys in their legal departments who possess the legal and scientific knowledge necessary, for processing patents on the company's technologies").

Determining infringement requires a construction of the meaning of the claim language and then application of the claims as construed to the allegedly infringing product or process. 4 D. Chisum, *Patents*, § 18.03 (1988); *see also Del Mar Avionics, Inc. v. Quinton Instrument Co.*, 836 F.2d 1320, 1324 (Fed. Cir. 1987) ("Claim construction is a question of law that may require determination of underlying facts"). This construction is "rarely easy," because each patentee is given the opportunity to define his own terms. 4 D. Chisum, *Patents*, § 18.03 (1988). Moreover, con-

struction of patent claims usually must encompass a study of the file history, i.e., the record of the prosecution of the patent through the U.S. Patent and Trademark Office, and of other earlier patents that claim or disclose similar subject matter. Often, the study of the scope of a patent's claims will be part of a broader investigation of whether the patent in question satisfies the difficult, subjective standard of nonobviousness and meets the other requirements for a valid patent. If a patent is invalid because it is found obvious, its claims have no force and cannot be infringed. The uncertainties of validity issues therefore often compound the uncertainties of an infringement analysis.

When literal infringement is not found, as is often the case, the equitable doctrine of equivalents is applied. Infringement under this doctrine depends on whether the potentially infringing "device 'performs substantially the same function in substantially the same way to obtain the same result' " as the patented device. *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605, 608 (1950) *(quoting Sanitary Refrigerator Co. v. Winters*, 280 U.S. 30, 42 (1929)); *accord Uniroyal, Inc. v. Rudkin-Wiley Corp.*, 837 F.2d 1044, 1057 (Fed. Cir.), *cert. denied*, 105 S. Ct. 75 (1988). Whether a device is equivalent to a claimed invention is a factual inquiry and "requires a balancing of credibility, persuasiveness and weight of evidence." *Graver*, 339 U.S. at 609-610. Analyzing infringement under the doctrine of equivalents is an even more imprecise science than determining literal infringement.

As conveyed by the term "opinion," the advice of patent counsel on such matters rarely involves black-

and-white determinations of what is true or fals Ultimately, such advice reduces to an assessment risk and consequences. For almost any enterprise a tempting to bring a new product to market—parti ularly enterprises averse to the costs an entanglements of litigation—prudence would dictat maintaining a conservatively defined "margin safety" between the new product design, on the on hand, and any valid, relevant patents, on the othe *See generally* Cox, *Keynote Address: Law and Tech nology*, 50 Alb. L. Rev. at 498; Mackey, *Recent D velopments in the Licensing of Intellectual Propert* 50 Alb. L. Rev. 577, 579 (1986) ("[I]t's essential t obtain early and thorough evaluation of infringemen risks. We appraise the risk of litigation versus th cost of a license, if we can get one, or of designin around an adversely held patent").

A product developer must also include within it patent infringement risk assessment the damages tha may result. As noted above, where patent counsel ca provide a proper opinion that a new product is no infringing, the danger of treble damages based o willful infringement can be removed, but if a cou or jury nevertheless finds infringement liability, dam ages will be assessed under 35 U.S.C. § 284. Befor the decision of the Federal Circuit, the rules for dam ages were well-established.[5] Where actual damage

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[5] The standard for determining damages is based upon th mandate that damages shall be "adequate to compensate [th patent owner] for the infringement." 35 U.S.C. § 284 (1982 There are two methods by which damages may be calculate under this statute. If lost profits can be proven to a reasonabl probability, they are the measure used. *See Yarway Corp. Eur-Control USA, Inc.*, 775 F.2d 268, 275 (Fed. Cir. 1985). Whe

cannot be assessed, "reasonable royalties" are substituted as measured by a judicially-created methodology. The methodology assumes "hypothetical negotiations between willing licensor and willing licensee." *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1574 (Fed. Cir. 1988). The results of such court analysis can vary but are guided by the statutory directives of reasonableness and compensation for use of the invention made by the infringer. The novel damage approach approved by the Federal Circuit ignores these statutory boundaries and allows damages for sales that did not occur. In light of the Federal Circuit's decision, prudent enterprises developing new products are now likely to respond overcautiously in developing new product designs. This chilling effect is inconsistent with the patent system's fundamental policy of promoting innovation.

If the damage exposure for patent infringement—measured either by lost profits or by the alternative reasonable royalty standard—is based on the actual number of sales of the infringing product, then the developer of a new product can proceed with reasonable assurance that if legal advice concerning compliance with the patent laws does not accurately predict the results arrived at through the judicial system, the exposure will be some moderate fraction of the revenues actually realized from sales of the infringing product. In sharp contrast, under the ap-

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however, the evidence is insufficient to establish actual damages, a "reasonable royalty" is used as the standard for awarding damages. *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1574 (Fed. Cir. 1988); 35 U.S.C. § 284. *See also Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078 (Fed. Cir. 1983).

proach sanctioned by the Federal Circuit, the consequences of a less-than-perfect prediction by patent counsel concerning validity or infringement issues may be the exaction of damages that are many times the revenues from sales of a product found to infringe. Damages based on sales not actually realized but merely projected are a disproportionate sanction for the actions of product developers found to infringe, despite efforts, in the best of faith, to navigate to legal safe harbor with experienced patent litigation counsel's opinions as their compass. It seems inevitable that a damages rule like the one approved by the Federal Circuit will force prudent enterprises developing new products—and their patent counsel—to enlarge greatly the above-mentioned "margin of safety" between the new product design and any existing patents that have any prospect of being upheld as valid. This tendency will heighten substantially the advantages of patentees in the competitive process and deter development of alternative designs.[6] *See United Carbon Co.* v. *Binney Co.*, 317 U.S. 228, 236 (1942) ("A zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement claims would discourage invention only a little less than unequivocal foreclosure of the field").

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[6] New products often are introduced on a pilot basis in a very limited market, in order to determine whether the investment necessary to take them to broader markets is justified. Under the approach sanctioned by the Federal Circuit, this type of experimentation in new product introduction will also carry greatly magnified hazards. A mere handful of sales in a test market may result in a damage exposure of tens of millions of dollars, even if the test marketing is a complete failure and the prospect of marketing the product more broadly has disappeared altogether.

(3) The Federal Circuit Has Upset the Balance Struck By the Patent Clause Between Rewarding Innovation and Promoting Competition

The Court has consistently recognized the careful balance struck in the patent clause of the Constitution between the proper protection and compensation of invention and the competitive benefits that flow from enhanced access to scientific and technical data.

> The Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the "Progress of Science and the Useful Arts." . . .
>
> From their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.

Bonito Boats, 109 S. Ct. at 975. The patent clause is "both a grant of power and a limitation." *Graham v. John Deere Co.*, 383 U.S. 1, 5 (1966). In practice, the balance that the Court contemplates is grounded in a risk assessment by potential product developers, involving both the scope of legal protection given to patents and the damages assessable in the event of non-willful infringement. It is this balance that the Federal Circuit's decision undermines, by approving damages that are utterly incommensurate with the sales revenue earned from a new design.

Any company properly advised of the Federal Circuit's approach will be forced toward one of three alternatives in order to maintain the required "margin of safety" in product development. First, to manage prudently the heightened risk of a large damage award for patent infringement, the developer of a new product will be under pressure to negotiate a license from the holders of existing patents in cases that are even slightly doubtful—even though such a license would be considered unnecessary absent the extraordinary exposure generated by the threat of a "projected sales" damage award. Second, the prudently advised developer of a new product may adopt a sub-optimal design that makes it possible to steer a wider berth around existing patents. In such cases, product design will be driven not by customer demand, efficiency considerations, or minimization of cost, but rather by the threat of an enormously disproportionate damage exposure.

Third, where design alternatives are limited or where the license fees demanded by holders of existing patents are too high, the developer of a highly desirable new product may abandon the effort altogether, thereby depriving consumers of a new product that could provide both cost and functional advantages. None of these outcomes is desirable. Each conflicts with the basic aim of the patent laws to strike an appropriate balance between protection of recognized innovation, on the one hand, and promotion of further research, innovation, refinement and competition on the other.

The present case is a powerful illustration of these ill effects. The petitioner, Ricoh Company, Ltd., prudently sought and obtained legal opinions from two

law firms specializing in patent law matters. It was advised that its product did not infringe the patent in question. As the jury eventually found, Ricoh proceeded in complete good faith.

Notwithstanding all of these undisputed facts, the Federal Circuit sanctioned a method of measuring damages that resulted in an award over four times greater than Ricoh's gross revenues from sales of the product found to have infringed. The appellate court approved an award of damages based on projected sales volumes that never were realized.[7] The conclusion is unavoidable that if Ricoh had ever even suspected that it might be required to pay a $12 million royalty for $2.7 million in sales revenues for the product in question, its design and marketing decisions would have been different. The design it believed to be noninfringing would never have found its way to the marketplace. The research and marketing decisions of any IEMCA member would be similarly inhibited in similar circumstances.

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[7] The case was remanded for further proceedings on the damages issue in accordance with the Federal Circuit's opinion, including the suggestion that the jury verdict could be reinstated. Whatever happens on remand, the appellate court's holding on damages stands as an unfortunate precedent for all the other patent cases within its appellate jurisdiction.

CONCLUSION

For the reasons stated above, *certiorari* should be granted to review the opinion of the Federal Circuit in the instant cause.

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